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INTRODUCTION

The Berrien County Friend of the Court (FOC) had a contract with the Michigan Family Independence Agency (FIA) to enforce all orders of support over which the Berrien County FOC had jurisdiction, to locate absent parents, and to provide certain reports on child support collections to the FIA. Berrien County FOC billed FIA monthly under the actual cost reimbursement billing method. FIA reimbursed Berrien County for their costs based on the Federal IV-D Program regulations.

SCOPE

We performed an audit of the costs submitted for reimbursement by the Berrien County FOC for the period January 1 through December 31, 1998. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We performed the audit tests that we determined were necessary to determine if the costs charged were proper, accurate, documented, and charged in accordance with the terms of the contract.

EXECUTIVE SUMMARY

We found that the Berrien County FOC overbilled the FIA for some line items. The State share of the amount overbilled was \$36,680. (See Schedule A.)

Our report recommends the Family Independence Services Administration initiate the process to recoup \$36,680 from the Berrien County FOC. Our report also recommends that the Family Independence Services Administration review the 1998 Berrien County indirect cost plan (used to bill 2000) because certain cost allocations will result in the overbilling of central service costs.

FOC RESPONSE

The Berrien County FOC disagrees with Finding #1 because Berrien County had already significantly reduced the fund balance before our report was issued and they believe the remaining reserve is a reasonable minimum. They disagree with Finding #2 because they believe the adjustment should not be more than the amount billed to the FIA in 1998. They disagree with Finding #3 because they say the college courses were appropriate and short term. The Berrien County FOC agreed with the remainder of the findings.

FINDINGS

Personnel – Health Care Fund

1. The Berrien County FOC overbilled FIA \$15,605 for health care costs. The health care costs were accounted for in the Health Care Term Claim Liabilities Self Insurance fund, an internal service fund. Attachment B, paragraph 25.d of OMB Circular A-87 (A-87) defines the allowable reserves for a self-insurance fund. Berrien County supplied reserve information for the fund that met the A-87 requirements. Taking into account: 1) that information, 2) the fact that Berrien County had reduced the reserve levels in a period subsequent to our audit period, 3) a non-operating transfer out of the fund was part of that reduction, 4) and investment income was not credited to the reserves we determined that the level of reserves exceeded the amount allowable under A-87. We calculated the excess reserves using the U.S. Department of Health and Human Services Implementation Guide for A-87 (ASMB C-10) “Reconciliation of Retained Earnings” schedule. As of December 31, 1998 the excess reserves were \$402,477. The overbilled amount identified above is the FOC share of the amount of excess reserves. (See Schedule A.)

Personnel – Unemployment Fund

2. The Berrien County FOC overbilled FIA \$13,129 for unemployment costs. The unemployment costs were accounted for in the Unemployment Compensation Reserve Self Insurance fund, an internal service fund. Attachment B, paragraph 25.d of A-87 defines the allowable reserves for a self-insurance fund. Berrien County did not supply reserve information for the fund that met the A-87 requirements. Therefore the reserve levels are limited to sixty days working capital by Attachment C, Section G, 2 of A-87. As of December 31, 1998 sixty days working capital would have equaled \$4,213. The retained earnings balance in the fund at December 31, 1998 was \$298,192. The overbilled amount identified above is the FOC share of the amount in excess of sixty days of working capital. In addition the A-87 Attachment B, Section 25 restrictions and requirements related to reserves and the crediting of investment income to reserves were not met. (See Schedule A.)

FOC College Course Reimbursement

3. The Berrien County FOC overbilled the FIA \$517 for the cost of college courses reimbursed to an FOC employee. The Code of Federal Regulations Title 45 Section 304.23 only allows federal participation for short-term training. (See Schedule A.)

Fringe Benefits included in Central Services and also Billed Directly

4. The Berrien County FOC overbilled the FIA \$19,121 for duplicate fringe benefit costs. The personnel costs billed directly to the FIA included a percentage of each dollar of payroll to cover the cost of pension administration and retirees' health care. Those same costs were allocated in the indirect cost plan and billed to the FIA as part of central services. The costs included in central services are a duplication of the costs directly billed and are therefore, disallowed. (See Schedule A.)

Copy Costs Billed Directly and in the Indirect Cost Plan

5. The Berrien County FOC overbilled the FIA \$1,780 for copy costs. FOC copy costs were directly billed as part of the other direct costs. These same costs for another County department were included in the copy costs allocated to the FOC through the indirect cost plan and billed as part of central services. The FOC cannot bill for the costs of another County department. (See Schedule A.)

Service Fees Not in Agreement with Financial Records

6. The Berrien County FOC underreported Service Fees of \$1,480 to the FIA. The amount reported did not agree with the fees recorded in the general ledger, which is a source document for the billings. (See Schedule A.)

Indirect Cost Plan

7. The Berrien County 1998 indirect cost plan (used to bill 2000) contains cost allocations that will result in the overbilling of Central Services costs in 2000. The questioned cost allocations include:

There are \$30,016 (plus the effect on the roll-forward) of fringe benefit costs included in the indirect cost plan. These fringe benefit costs are a duplication of costs billed directly to the FIA. See finding #4 above. There are \$2,997 (plus the effect on the roll-forward) of copy costs included in the indirect cost plan. These copy costs are unallowable because they are the costs of another department. See finding #5 above.

Accumulated Leave Payoffs

8. Berrien County charges accumulated leave payoffs to the last department in which an employee worked. Any accumulated leave charged to the FOC under this

method would be an unallowable expense in accordance with A-87 Attachment B, Section 11.d (3).

WE RECOMMEND the Family Independence Services Administration initiate the process to recoup \$36,680 from the Berrien County FOC.

WE ALSO RECOMMEND that the Family Independence Services Administration review the 1998 Berrien County indirect cost plan (used to bill 2000) because certain cost allocations will result in the overbilling of central service costs.

Finding #	Line Item	Year	(Over)/Under Billed Gross Amount	IV-D %	(Over)/Under Billed IV-D Amount	State %	Due (State) County
1	Personnel	1996	\$ (16,300)	95.74%	\$ (15,605)		
2	Personnel	1996	\$ (13,714)	95.74%	\$ (13,129)		
3	Other Direct	1996	\$ (540)	95.74%	\$ (517)		
4	Central Services	1996	\$ (19,973)	95.74%	\$ (19,121)		
5	Central Services	1996	\$ (1,859)	95.74%	\$ (1,780)		
6	Service Fees	1996	\$ (1,546)	95.74%	\$ (1,480)		
Grand Total of the IV-D Audit Adjustments					\$ (51,632)		
Calculation of the Payment Due the (State) County							
Audited IV-D Amount					1,721,574		
IV-D Amount Used for the Payments Actually Made					(1,773,207)		
IV-D Audit Adjustment Due (State) County					(51,632)	71.04%	(36,680)